



BOARD OF TRADE

American Military International Insurance Association

and

First General Assurance & Guarantee Company Limited

INTERIM AND FINAL REPORTS BY
Mr. W. E. PARKER, C.B.E., F.C.A.

*(Inspector appointed by the Board of Trade
in accordance with the provisions of
Section 14(3) of the Insurance Companies Act, 1958)*

LONDON
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IN THE MATTER OF THE INSURANCE COMPANIES ACT 1958
and
IN THE MATTER OF AMERICAN MILITARY INTERNATIONAL
INSURANCE ASSOCIATION

WHEREAS under subsection (3) of section 14 of the Insurance Companies Act 1958, the Board of Trade have power, with the leave of the Court, to appoint one or more inspectors to investigate the affairs of an insurance company to which that Act applies :

AND whereas on the 17th December 1962 the Board of Trade were granted leave by the Court to appoint inspectors to investigate the affairs of American Military International Insurance Association :

NOW, therefore, the Board of Trade hereby appoint Mr. WALTER EDMUND PARKER, C.B.E., F.C.A., to act as inspector to investigate the affairs of the said company and to report thereon in such manner as the Board may require.

DATED this 21st day of December 1962

(Signed) C. J. HOMEWOOD

An Assistant Secretary
of the Board of Trade

IN THE MATTER OF THE INSURANCE COMPANIES ACT 1958
and
IN THE MATTER OF FIRST GENERAL ASSURANCE AND
GUARANTEE CO. LTD.

WHEREAS under subsection (3) of section 14 of the Insurance Companies Act 1958, the Board of Trade have power, with the leave of the Court, to appoint one or more inspectors to investigate the affairs of an insurance company to which that Act applies :

AND whereas on the 17th December 1962, the Board of Trade were granted leave by the Court to appoint inspectors to investigate the affairs of First General Assurance and Guarantee Co. Ltd. :

NOW, therefore, the Board of Trade hereby appoint Mr. WALTER EDMUND PARKER, C.B.E., F.C.A., to act as inspector to investigate the affairs of the said company and to report thereon in such manner as the Board may require.

DATED this 21st day of December 1962

(Signed) C. J. HOMEWOOD

An Assistant Secretary
of the Board of Trade

INTERIM REPORT

1. On leave granted by the Court on 17th December 1962 the Board of Trade under sub-section (3) of section 14 of the Insurance Companies Act 1958 appointed me on 21st December 1962 as Inspector to investigate the affairs of two oversea companies which since dates in 1960 and 1961 respectively have carried on insurance business in the United Kingdom, namely :

American Military International Insurance Association, incorporated in the State of Delaware, United States of America ;

First General Assurance & Guarantee Company Limited, incorporated in the Bahama Islands,

In this interim report I refer to the companies by the short titles "American Military" and "First General."

2. The two companies appear to be intimately connected. At one time, if not still, the assets of American Military included a substantial holding in the share capital of First General. In London the companies occupy the same office. All my information indicates that the ultimate direction of both lies in the hands of a Mr. Stuart W. Reichstein, whom I understand to be an American citizen resident mainly in Frankfurt, West Germany.

3. My appointment resulted from the failure of First General to render any returns at all to the Board of Trade and from dissatisfaction with the form and substance of the accounts and other information for the years 1960 and 1961 furnished by American Military under the requirements of the Act, the Board being led thereby to an opinion that the solvency of this company was doubtful in that its assets may not have been as high and its liabilities may have been greater than the figures given.

4. I have now to report that, although more than six months have elapsed since my appointment, I have been unable to make any significant progress with my investigation. The reasons for this appear from the following paragraphs.

5. American Military carries on the greater part of its business in Germany, France and the United States. First General appears to have ceased underwriting in the United Kingdom at the end of 1962 but is said to have been and to be conducting considerable "credit life" insurance business in the United States. Neither company has its head office in the United Kingdom. In this situation the financial position of the companies cannot be ascertained by reference to such records as are maintained here. Since my statutory powers are ineffective outside this country, I can therefore make significant progress with my investigation only with the concurrence and assistance of Mr. Reichstein.

6. In the Court proceedings leading up to my appointment it was stated on behalf of American Military that it was perfectly sound and in the opinion of its directors completely solvent, and that it welcomed any investigation into its affairs and was confident it would have no difficulty in satisfying the Board of Trade's requirements. In the circumstances it seemed to me both appropriate and expedient to take the company at its word. Accordingly, as soon as the Board of Trade's relevant papers had been reassembled after the Court proceedings and made available to me, I wrote on 17th January 1963 to Mr. Louis J. Manson, a partner in the firm of solicitors, Manches & Co., who had acted for the companies in the Court proceedings, and asked for a preliminary meeting with him on the footing that his clients had "a common interest with the Board of Trade and myself in expediting the inspection and bringing matters to a conclusion as quickly as may be." At that time it appeared that neither Mr. Reichstein nor any other director of either company was in this country. The meeting with Mr. Manson took place on 23rd January and I then explained to him

- (1) that I should want to have access to the books, documents and officials of the companies at their offices abroad and for that purpose should want a suitable letter of authority from Mr. Reichstein ;
- (2) that in my view the most important first step was to ascertain the current financial position of the companies ; any necessary investigation of their past record could follow later.

I asked him to pass this on to Mr. Reichstein, and on 29th January I received the following letter from Manches & Co.

"With reference to your call here last week we wrote to Mr. Reichstein advising him of the authority you requested and he states that in principle he has no objection to giving you such an authority but he would like to see the exact terms in which it will be expressed.

"He states that Messrs Cooper Lybrand will be working on the companies' records and he enquired whether it would not be possible for them to supply you with the information you require. Perhaps you would let us have your views on this suggestion."

To this I replied on 30th January as follows :

"Thank you for your letter of 28th January.

"I enclose two copies of the text of the letter which I suggest Mr. Reichstein should write to me so that my representatives can make such inspection as I find necessary of the relevant records in Germany, France and elsewhere. I have no doubt that it will be helpful to me to have firsthand information through my own representatives as to the nature, scope and state of these records, but your client may assume that I do indeed expect that his own professional accountants will be of great assistance in providing me with much of the further information which I shall require especially if they are an international firm whose repute is well known to me.

"I am aware that Messrs. Coopers & Lybrand are auditors of First General Assurance & Guarantee Company Limited, but I was not aware that they had yet accepted instructions in connection with American

Military (International) Insurance Association. Indeed, so far as the latter company is concerned my understanding is that at present your client has no professional accountants, Messrs. Tansley Witt & Co. having been dismissed and Messrs. Coopers & Lybrand not having accepted instructions. I regard it as highly desirable that this situation should be rectified immediately and I should be glad if your client would keep me informed of the developments on this aspect. You will recall that during our discussion last week I suggested that, if Messrs. Coopers & Lybrand had any reservations about accepting official appointment as auditors, they might nevertheless be prepared to accept special instructions to assist in preparing and reporting on accounts up to 31st December 1962.

"I enclose an additional copy of this letter for your client's information."

Text of letter of authority

"Mr. W. E. Parker
c/o Messrs. Price Waterhouse & Co.
3, Frederick's Place
Old Jewry
London, E.C.2, England

Dear Sir,

In connection with your appointment as an inspector under the United Kingdom's Insurance Companies Act 1958, I write to confirm that any members of the staff of Price Waterhouse & Co. whom you may designate as your representatives shall on request have access to any books, accounts and records, wheresoever maintained, of the businesses under my control in so far as such books, accounts and records relate to the affairs of, or to business transacted by or for, American Military (International) Insurance Association and/or First General Assurance & Guarantee Company Limited; and that I have instructed the persons by whom such books, accounts and records are kept to give to the best of their ability such explanation of them as your representatives may require.

It is understood that your representatives will have as their credentials a photographic copy of this letter together with a letter of designation by you.

Yours faithfully,"

7. On 12th February, having heard nothing further from either Manches & Co. or Mr. Reichstein, I wrote again to the former in the following terms:

"I write to remind you that I await the response to my letter to you of 30th January with enclosures. If the proposal in that letter presents Mr. Reichstein with any difficulty, I should be glad to know the nature of the difficulty so that I can see whether I can help to resolve it.

"A possible difficulty may arise out of the recent action of the German Federal Authorities, of which I am aware. If this action for the time being prevents your client from making the books and records in

Frankfurt available for inspection by my representatives, I should be prepared as an interim measure to accept an authorisation from him which excludes Frankfurt.

"In the meantime I enclose for transmission to Mr. Reichstein two copies, one for each company, of a list of questions covering preliminary information which I require of him. You will see that, apart from the first six questions which relate to general matters, all but two of the remainder are confined to the financial position of the companies at 31st December 1962.

"The list, even so, is necessarily a long one, but a number of the questions or of parts of them should be capable of answer promptly. I refer particularly to those listed by reference number on the sheet attached to this letter. I would therefore request your client not to delay answers to particular questions or parts of them until all the information has been assembled but instead to supply the answers to me in stages, giving each answer or part-answer at the earliest possible date. Where early answers can only be given provisionally, I will receive them (if they are so described) on the understanding that they may need to be corrected later.

"If any of the questions is found to require interpretation or clarification, I shall be pleased to provide the requisite explanation. I shall also be glad to supply Mr. Reichstein with any additional copies of the list which he may require.

"I enclose an additional copy of this letter and its attached sheet for transmission to your client. I also enclose for your own file an additional copy of the list of questions.

"In conclusion I should like to know whether any progress has been made over the appointment of a firm of accountants to prepare worldwide accounts of American Military (International) Insurance Association as of 31st December 1962."

The reference in this letter to the action of the German Federal Authorities related to their recent appointment of a special commissioner to take over the assets and the running of the company's business in Germany. A copy of the list of questions which accompanied the letter is annexed hereto as Appendix A. Those questions which were indicated as being capable of answer promptly are marked in the Appendix with an asterisk.

8. To this letter Manches & Co. replied on 18th February as follows :

"We thank you for your letter of the 12th instant enclosing List of Enquiries and are obliged to you for the copies. We were about to forward these to Mr. Reichstein in Frankfurt last week when we found that he had that day left Frankfurt for the United States. In view of this we have had to send them to his London office who inform us that they expect to hear from him within a matter of days as to his exact whereabouts."

9. On this aspect of the matter no further development of which I was aware occurred until early in March when two chartered accountants who had been on the staff at the companies' London office both left their employment within a few days of one another. At about that time information

reached me that a Mr. Wheeler had arrived in London from Frankfurt with authority to act on Mr. Reichstein's behalf. On 12th March I sent the following letter to Mr. Wheeler by registered post.

"By virtue of my statutory powers as Inspector of these two companies under the Insurance Companies Act 1958, I have kept myself informed of the steps which were being taken on the preparation in London of accounts for the year 1962. In view of the fact that Mr. Saunders, whom my representative previously questioned, has now left the companies' employment, I require to know what stage the work on the preparation of these accounts has reached. For that purpose I gave instructions this morning to my representative, Mr. P. Granger, to question you and/or Mr. Reeder. He reports to me that he was unable to get in touch with you by telephone. I am, therefore, writing to request you to communicate with him or me at this office in the course of the next two days in order that the necessary appointment can be made."

On the following day Mr. Wheeler replied as follows :

"Receipt is acknowledged of your letter of the 12th March 1963 and my apology is extended to you for not communicating earlier, but I have been extremely busy.

"Further to your enquiry as to what stage the preparation of the accounts for the year 1962 has progressed to—this is to inform you that everything has been turned over to our Financial Consultant, Mr. B. Gadd—who will be contacting you."

10. On the same day (13th March 1963) information reached me that Mr. Reichstein might himself be arriving in London that evening, for the first time since my original approach to Manches & Co. Accordingly I arranged for the following directives on 14th March to be served respectively on him and on the London Manager (whoever he might now be) of each of the two companies.

"To S. W. Reichstein, Esq.
c/o American Military International
Insurance Association
Ramillies Buildings
1-9, Hills Place, W.1

14th March 1963

"By virtue of my statutory powers as Inspector under the Insurance Companies Act 1958 of American Military International Insurance Association and First General Assurance & Guarantee Company Limited
I HEREBY REQUIRE OF YOU :

- "(1) that without delay you furnish me with the information, for each of these companies, called for in the enclosed memorandum (of which copies were sent to your London solicitors, Messrs. Manches & Co., on 12th February 1963 for transmission to you);
- "(2) that you inform me immediately :
 - (a) what arrangements now exist for completing the preparation of accounts of each of the companies for the year 1962
 - (i) in London,
 - (ii) elsewhere ;

- (b) by what dates the first drafts of these accounts will be available ;
 - (c) what reinsurance cover each company has for 1963 and with what insurance companies or underwriters this reinsurance has been taken out ;
 - (d) whether since 31st December 1962 and up to the time of your reply to this question any funds or securities of either company (including funds or securities held by or in the name of the associated broker company, American International Insurance Association) have been transferred out of the United Kingdom and, if so, what was the date, amount and destination of each such transfer ;
 - (e) whether any such funds are now in process of being so transferred ;
- “(3) that from now on you give me advance notice of any such transfers of funds and/or of any transfers out of the United Kingdom of any physical property (including furniture, typewriters and other equipment) of either company ;
- “(4) that you furnish me immediately with a copy of any accounts, whether final or provisional, which have already been prepared in London relating to or embracing the United Kingdom operations of either company for 1962 and the resultant financial position at the end of that year.

(Signed) W. E. PARKER
Inspector ”

“ To the London Manager
American Military International
Insurance Association
Ramillies Buildings
1-9, Hills Place, W.1

14th March 1963

INSURANCE COMPANIES ACT 1958

“ Enclosed herewith is a copy of a notice which I have today sent to Mr. S. W. Reichstein and of the memorandum which accompanied it.

“ I HEREBY REQUIRE that you also comply, to the best of your knowledge and ability, with the requirements which the notice imposes on Mr. Reichstein and that you inform me immediately of any respects in which you are not at present able to comply, giving your reasons for such inability.

(Signed) W. E. PARKER
Inspector ”

Note : An identical directive was addressed to “ The London Manager, First General Assurance & Guarantee Company Limited ” at the same address.

In the event Mr. Reichstein was not found at the company's London office or at any of the London hotels at which he had formerly stayed, but the directives were accepted by Mr. Wheeler who gave my representatives to

understand that (a) he was Mr. Reichstein's personal assistant and (b) he was returning to Frankfurt where he would deliver to Mr. Reichstein the directive addressed to him.

11. Mr. Wheeler's departure from London was shortly followed by the arrival from Nassau, Bahamas, of Mr. D. L. Griffith-Jones, a director of First General. On 27th March he and I had a long meeting at which he explained to me that he now had complete authority from Mr. Reichstein to deal with the affairs of American Military International Insurance Association in the United Kingdom, that he appreciated the importance of producing up to date and properly audited accounts of the company's affairs on a world-wide basis and that he hoped to arrange for Mr. Reichstein to come to London in order to meet and appoint auditors for this purpose early in April. At the same time he gave me such replies as he was personally in a position to make to my directives of 14th March addressed to the London Manager of each company (reproduced in paragraph 10 above). He told me that on item (1) the information was being obtained from their respective Head Offices, that on item (2)(c) he understood that the reinsurance cover was arranged by Head Office to which London reported claims which were likely to exceed £5,000, that on items (2)(d) and (2)(e) no funds or securities had been removed from the United Kingdom since 31st December 1962 or were now in process of removal and that on item (3) he would give me the required advance notice. In regard to item (4) he gave me a copy of unaudited accounts of the United Kingdom branch of American Military for 1962 "as submitted to Head Office" and of an unaudited world-wide balance sheet of American Military at 31st December 1962 as prepared in the United States for filing with the authorities in the State of Delaware. For First General he was able to give me nothing except an unaudited revenue account of the United Kingdom branch for 1962.

12. From these unaudited statements and comparison of the world-wide figures of American Military with those of its United Kingdom branch, presumably included in them, the geographical disposition at 31st December 1962 of American Military's net assets appeared to be as shown in the summary below, expressed in *thousands of U.S.A. dollars* :

	<i>United Kingdom</i>	<i>Elsewhere</i>	<i>Total</i>
Cash, bank balances and investments	123	3,504	3,627
Agents' balances and uncollected premiums	162	1,279	1,441
Other assets	4	794	798
	<hr/> 289	<hr/> 5,577	<hr/> 5,866
<i>Deduct :</i>			
Liabilities	606	2,663	3,269
Unexpired premiums	363	1,514	1,877
	<hr/> 969	<hr/> 4,177	<hr/> 5,146
<i>Net Assets</i> excluding inter-branch balances	<hr/> (680)	<hr/> 1,400	<hr/> 720

13. In addition Mr. Griffith-Jones informed me that the world-wide premium income of American Military for 1962 amounted to the equivalent of U.S. \$5,335,905. Of this total the unaudited accounts of the United Kingdom branch showed that the company's premium income in this country accounted for the equivalent of U.S. \$907,174. Presumably therefore the premium income in Germany, France and elsewhere amounted to the equivalent of U.S. \$4,428,731. These figures and the summary of net assets given in paragraph 12 emphasise the extent to which American Military's activities are outside this country.

14. How much reliance can be placed on these unaudited statements has yet to be ascertained. I refer later to reports as to the state of the companies' records. As they stand, however, the statements for American Military show, despite a deficiency of net assets in the United Kingdom, an over-all margin of solvency at the end of 1962 of some U.S. \$720,000 which represented about 13½ per cent of the stated world-wide net premium income for that year. On the other hand the amounts totalling U.S. \$1,877,000 allowed for unexpired premiums represent only 35 per cent of that income, in comparison with the 40 per cent allowance which is generally regarded as necessary in this country. At 40 per cent the unexpired premiums would have amounted to U.S. \$2,134,000 and the margin of solvency would then have been only U.S. \$463,000 or less than 10 per cent of the stated net premium income for 1962.

15. The allowance for unexpired premiums is however only one of the many matters on which further information is needed. Until the assets and liabilities as a whole have been independently established and confirmed, the unaudited statements given to me by Mr. Griffith-Jones do nothing to remove the doubts about possible over-statement of assets and under-statement of liabilities which led to my appointment. Accordingly at the conclusion of our meeting on 27th March I again impressed on Mr. Griffith-Jones the urgency and supreme importance of making proper arrangements for accountancy and audit.

16. Despite the hopes which Mr. Griffith-Jones expressed to me of getting Mr. Reichstein to come to London early in April to make these arrangements, and despite a telephone call from Mr. Griffith-Jones on 18th April in which he told me that Mr. Reichstein had confirmed his intention of coming over from the United States "during the course of next week," Mr. Reichstein did not eventually arrive in London until 8th May 1963, so far as I am aware his first appearance in this country since I began my enquiries. He then held a meeting with representatives of two firms of chartered accountants, Tansley Witt & Co. and Coopers & Lybrand, as the result of which Tansley Witt & Co. were instructed to audit the accounts of the London office of American Military for 1962 and in addition were to be furnished with audited accounts of the company's offices in France and Germany in order that audited world-wide accounts might be compiled. No instructions appear to have been given for the preparation or audit of accounts of First General.

17. Mr. Reichstein remained in this country until 15th or 16th May and I took the opportunity of sending him on 10th May 1963 the following letter, delivered to the companies' London office by hand:

"S. W. Reichstein, Esq.
c/o American Military International
Insurance Association
Ramillies Buildings
1-9, Hills Place, W.1

10th May 1963

Dear Sir,

AMERICAN MILITARY INTERNATIONAL INSURANCE
ASSOCIATION

FIRST GENERAL ASSURANCE AND GUARANTEE CO. LTD.

"Having been informed of your arrival in this country I write to draw your attention to your statutory obligation to give me all assistance with my investigation, and in that connection to remind you that I still await

- (1) the letter of authority which I requested of you through your solicitors, Messrs. Manches & Co., on 30th January 1963 ;
- (2) your replies to the questions set out in the list which I sent to Messrs. Manches & Co. on 12th February 1963 for forwarding to you ;
- (3) your replies to the further questions set out in my directive to you which was accepted on your behalf by Mr. C. Wheeler on 14th March 1963.

"I enclose copies of my letters of 30th January and 12th February referred to above ; Mr. Griffith-Jones already has copies of the list of questions and the subsequent directive.

"I see no reason why you should be unable to give me at once complete and precise information about the arrangements (if any) for reinsurance cover which have been in operation for American Military International Insurance Association and First General Assurance & Guarantee Co. Ltd., since 1st January 1963—see sub-paragraph (2)(c) of my directive of 14th March. I also see no reason why you should not long before now have provided me with answers at least to those items in my list of questions which were enumerated on the sheet accompanying my letter of 12th February.

"Unless you now give me the information for which I have asked about reinsurance cover and can also satisfy me that the remainder of the information and the facilities for which I have asked will be forthcoming without further delay I shall have no option but to note your failure in these respects to comply once again with your statutory obligations.

"You must assume that since more than four months have elapsed since my appointment I may be called upon at any time now to make a report to the Board of Trade.

Yours faithfully

(Signed) W. E. PARKER
Inspector "

The only reactions I received to this letter were the following letter, from Manches & Co., but unsigned, dated 22nd May 1963 :

RE BOARD OF TRADE

"We have heard from Mr. Reichstein that the information requested in your letter of the 30th January last is in hand and he has requested his home office in Dover, Delaware, to extract the detailed information requested in the questionnaire about which he has no information available in Frankfurt since it involves fiscal matters not devolving on any of the branch offices.

"Apparently there was considerable delay before your questionnaire reached Mr. Reichstein as we sent copies to his office in Frankfurt and in London when he was at neither of these places and the letters with the questionnaires followed him around for some time."

and the following letter, dated 13th May 1963, from Mr. Griffith-Jones :

"In your letter of the 14th March 1963 addressed to the London Manager of American Military International Insurance Association and First General Assurance and Guarantee Company Limited, you enclosed copies of notices sent to Mr. S. W. Reichstein and memoranda accompanying those notices.

"Since these Companies are now awaiting their audit to the 31st December, 1962, I would like your confirmation that the preliminary information that you required as stated in the memoranda, can now wait the completions of Messrs. Tansley Witt & Co.'s audit, so as to give you an accurate report. Should this not be the case, please advise me accordingly."

On 14th May 1963 I replied to Mr. Griffith-Jones as follows :

"In reply to your letter of yesterday I confirm that Mr. Reichstein's replies to the questions which I addressed to him on 12th February 1963 should certainly not be deferred until the information has been confirmed by the auditors now appointed. If you will study the list, of which you have a copy, you will see that the great bulk of these questions should be capable of answer from the knowledge of the management and should not need to await ascertainment by accountants brought in from outside.

"I made it clear in my letter of 12th February that "Where early answers can only be given provisionally, I will receive them (if they are so described) on the understanding that they may need to be corrected later "".

to which he in turn replied on 16th May 1963 as follows :

"Thank you for your letter of the 14th May in answer to mine of the 13th May.

"I will pass the contents of your letter to Mr. S. W. Reichstein, Frankfurt, Mr. George H. Bunting, Dover, Delaware and Rear-Adm. W. J. Schlacks, Jr., Paris."

18. I did not receive, nor have I since received, any reply from Mr. Reichstein. Indeed, throughout my enquiries I have received no communication of any kind direct from him.

19. On 23rd May 1963, as the result of my enquiries of Tansley Witt & Co. and Coopers & Lybrand as to progress with the audits for which Mr. Reichstein gave instructions on 8th May, I learnt for the first time that the Paris office of Coopers & Lybrand had already reported on the 1962 accounts of American Military's Paris branch. The information was contained in a letter from a partner of Coopers & Lybrand in London, dated 22nd May, of which the following is a relevant extract.

"Thank you for your letter of 21st May 1963.

"I confirm that it is my understanding that Tansley Witt are responsible for the U.K. branches of the above companies and also for putting together the world-wide figures.

"With regard to the Paris office, my firm in Paris has reported and no doubt you have seen a copy of it. This report you will see is quite useless in that they found the state of the books to be very much in arrears and it is not possible for them ever to certify the accounts without rewriting the whole of the books.

"With regard to Frankfurt, our office there are no longer acting and I understand some other German firm has been appointed. This was caused by the fact that our German firm said that they were unable to do anything because of the mess in the books. My information is that the London accounts will take a considerable time as a great many of the staff have left and the book-keeping is considerably in arrear."

In view of this information I asked Coopers & Lybrand to let me see a copy of the report. It was dated 28th March 1963 and fully bears out the comment on it quoted above. The text is reproduced in full in Appendix B.

20. The observation made by Coopers & Lybrand about the London accounts was fully supported by my enquiries of Tansley Witt & Co. who on 22nd May 1963 wrote a letter to Mr. Griffith-Jones saying :

"It is now clear that not much progress can be made with the audit until the books have been written up. The arrears on the accountancy side appear to be formidable."

and drawing attention to the consequential staff requirements. According to my information these requirements have still not been faced, for the reason among others that American Military is running out of funds in this country.

21. On this aspect I arranged for Mr. Griffith-Jones to be further questioned by one of my representatives on 7th June 1963. In reply to specific questions Mr. Griffith-Jones estimated that claims then actually due for payment amounted to some £20,000 while available bank balances amounted only to some £7,000. In addition a further claim had recently been made which was likely to be assessed at £20,000. Amounts recoverable from

reinsurers were dependent on the payment of £13,000 to discharge the unpaid balance of the reinsurance premiums for 1962. About 30 new claims a day were being notified and there was a back-log of some 2,000 claims which had still to be processed; Mr. Griffith-Jones added that most of these related to First General but that at present no firm distinction was being drawn between First General and American Military in regard to the use of funds for payment of claims. As to the future Mr. Griffith-Jones said that present policy (recently decided) was to discontinue civilian but go all out to extend military business in this country. The staff position was extremely difficult and he had orders not to pay any increases in salary to existing staff and not to take on without prior approval any new staff.

22. Information has reached me in the last few days that the claims awaiting examination in London may well amount to a further £100,000, that brokers are reluctant to pay over premium monies in their hands for fear that the companies may default in the payment of claims, and that, so far from recruiting the requisite staff to deal with them and to bring the accounts into a proper state, the companies are drastically reducing their London staff.

23. On 19th June 1963 I received a reply, dated 17th June, from the Bahamas office of Coopers & Lybrand to questions which I had addressed to them on 31st May 1963 about the preparation and audit of accounts of First General. The following are relevant extracts:

"Since early this year little or no progress has been made on the 1961 accounts and we are still awaiting information requested in our letter dated 13th October 1962 addressed to Mr. Reichstein and our letter dated 8th May 1963 addressed to Mr. Griffith-Jones."

"We have not received any instructions to proceed with the preparation of the accounts up to the end of 1962."

"From our experience on this assignment to date it appears probable that we will never be able to issue a clean opinion on these accounts and it is unlikely that we can do other than issue a complete disclaimer of opinion."

When he was questioned on 7th June 1963 Mr. Griffith-Jones gave replies to the effect that, so far as he knew, First General had no central books of account; he believed that there were various bank accounts, operated on the sole signature of Mr. Reichstein, into which collections from agents were paid and out of which disbursements were made as and when required; the central information regarding First General's financial activities was probably in Mr. Reichstein's head.

24. From the foregoing it will be apparent that, despite persistent efforts on my part over the period of six months

- (1) Mr. Reichstein has consistently refrained from giving me any assistance with my task, either by giving me in response to my specific questions, the knowledge (for example as to bank balances, invest-

ments, ownership of share capital, relationship between the two companies and current reinsurance cover) which as a director (and to all appearances the controlling director) he must necessarily possess, or by affording me facilities to ascertain for myself the situation in the offices outside this country : on the contrary he has completely ignored my repeated requests for these facilities and has given no reply to any of the three communications about the position of the two companies, which I sent to him personally on 12th February 1963 through his London solicitors and on 14th March and 10th May 1963 by hand to the companies' London office ; in consequence I am still without answers to any of the questions which I addressed to Mr. Reichstein apart from the meagre amount of information which Mr. Griffith-Jones was able to give me as recorded in this interim report.

- (2) No instructions have been given which would enable First General to furnish the information required either by the Board of Trade under the ordinary provisions of the Insurance Companies Act 1958 or by me in pursuance of my special investigations, and no proper steps have been taken to maintain or provide accounting records of sufficient accuracy and reliability to enable American Military to comply with these requirements ; the companies have now defaulted yet again on their obligations under the Act, in that they have failed to file by 30th June 1963 the prescribed information relating to their operations in 1962.
- (3) Such information as I have been able to obtain does nothing to dispel the doubts about the solvency of the companies which were the grounds for my appointment : on the contrary those doubts are strengthened.

I can draw no other conclusion than that Mr. Reichstein has no real intention of proper compliance with his statutory obligations or of allowing the true position of American Military and First General to be ascertained and made known either to the Board of Trade or to myself.

25. Whether the companies will meet their financial obligations either generally or in the United Kingdom taken by itself remains to be seen. Unless substantial additional premium income is obtained in this country it seems clear that, if liabilities are to be met, the deficiency of net assets here will have to be made good in whole or in part by bringing in funds from abroad. To what extent such funds are available is not known to me, but I understand that substantial security has to remain deposited with the French authorities if business is to continue in France and that additional security has recently had to be furnished to the German authorities as a condition of business continuing there.

London
1st July 1963

(Signed) W. E. PARKER
Inspector

LIST OF QUESTIONS OF WHICH TWO COPIES ENCLOSED WITH
LETTER OF 12th FEBRUARY 1963 TO MANCHES & CO. FOR
TRANSMISSION TO MR. REICHSTEIN, EACH BEING HEADED
WITH THE NAME OF THE RELEVANT COMPANY

[Name of company]

.....
(referred to below as "the Company")

PRELIMINARY INFORMATION REQUIRED BY THE INSPECTOR
APPOINTED UNDER THE INSURANCE COMPANIES ACT 1958

Note: The term "person" as used below is to be interpreted in its widest sense to include firm, body corporate and government department, and the term "director" is to be interpreted to include a person in accordance with whose directions or instructions any director of the company has been accustomed to act.

General

1. What is the name and the present or latest known address of *each* person whose relationship with the company *during the period since its incorporation* has been at any time that of :

- (1) member (i.e. shareholder or stockholder) ?
- (2) director ?
- (3) officer (other than director) ?
- (4) banker ?
- (5) solicitor ?
- (6) auditor ?
- (7) broker ?
- (8) reinsurer by whom risks are carried for the company as insurer ?
- (9) insurer for whom risks are carried by the company as reinsurer ?
- (10) subsidiary ?

* 2. Which persons stood at 31st December 1962 in *each* of the relationships referred to in question 1 ?

* 3. If the company and a person referred to in questions 1(1) to (3) inclusive both had at 31st December 1962 a financial relationship (whether as member, principal, agent, debtor, creditor, officer, servant or otherwise) with another person, what is the name and the present or latest known address of, and what is the nature of *each* relationship with, the other person or *each* other person ?

* 4. What is the nature of the business or of *each* business (distinguishing *each* class of insurance and reinsurance business) which was being carried on by the company at 31st December 1962 ?

* 5. In what territories and at what addresses in *each* territory was the business or *each* business of the company carried on at 31st December 1962 ?

* 6. Where are the books and records of the company kept and what books and records of the company are kept at *each* place ?

Assets at 31st December 1962

7. In what territories did the company have assets at 31st December 1962 and, in relation to *each* of those territories what was the amount or value as at that date of the company's assets which then consisted of :

- * (1) balances with banks on :
 - (a) accounts subject to special restrictions ?
 - (b) deposit accounts not subject to special restrictions ?
 - (c) current accounts not subject to special restrictions ?
- * (2) investments quoted on a stock exchange ?
- * (3) other investments in the form of :
 - (a) secured debentures and secured debenture stocks ?
 - (b) unsecured debentures and unsecured debenture stocks ?
 - (c) preference shares and stocks ?
 - (d) ordinary and common shares and stocks ?
- * (4) property in the form of :
 - (a) freehold interests ?
 - (b) leasehold interests ?
 - (c) mortgages on property ?
- * (5) loans (distinguishing between secured and unsecured loans) to :
 - (a) directors of the company ?
 - (b) officers (other than directors) of the company ?
 - (c) agents of the company ?
 - (d) other persons (distinguishing between persons referred to in question 3 and others) ?
- (6) other amounts receivable from :
 - (a) directors and officers of the company ?
 - (b) brokers ?
 - (c) other agents of the company ?
 - (d) policyholders in respect of insurance premiums ?
 - (e) insurers (for whom risks are carried by the company as reinsurer) in respect of reinsurance premiums ?
 - (f) reinsurers (by whom risks are carried for the company as insurer) in respect of reinsurance claims admitted to and reinsurance claims intimated by the company in relation to *each* class of business ?
 - (g) other persons (distinguishing between persons referred to in question 3 and others) ?

- (7) amounts accruing to the company in respect of interest, dividends and rents ?
- * (8) amounts (other than amounts referred to previously in this question) deposited by the company with government and insurance authorities ?
- (9) assets in the form of :
 - (a) equipment, motor vehicles and similar property ?
 - (b) prepayments ?
 - (c) deferred revenue expenditure ?
- (10) other assets ?

Note : It may be convenient to combine answers to this question, with corresponding answers to question 8 which follows :

8. What part of the amount or value referred to in *each* of the questions 7(1) to (10) inclusive represents :

- (1) cost to the company as recorded in its books ?
- (2) cost to the company as otherwise ascertained ?
- (3) balances on personal accounts as recorded in the company's books ?
- (4) balances on personal accounts as otherwise ascertained ?
- (5) stock exchange values ?
- (6) the directors' current estimate of realisable value ?
- (7) an amount or value arrived at otherwise ?

* 9. What part of the amount or value of the assets referred to in question 7 consisted of interest in *each* subsidiary in the form of :

- (1) ordinary and common shares and stock ?
- (2) preference shares and stock ?
- (3) secured indebtedness (including debentures and loan indebtedness) of the subsidiary ?
- (4) unsecured debentures of, and unsecured loans and advances to, the subsidiary ?
- (5) other balances receivable from the subsidiary ?

* 10. What is the description and amount or value as at 31st December 1962 of *each* investment referred to in question 7(2) and what is the address of *each* property referred to in question 7(4) ?

* 11. What is the name and the present address of *each* person by whom assets of the company were held or controlled at 31st December 1962 as :

- (1) deposit holder (whether government or other public authority or agency) under :
 - (a) insurance laws and regulations ?
 - (b) other laws and regulations ?
- (2) custodian for safe deposit ?
- (3) nominee ?
- (4) trustee or otherwise in a fiduciary capacity ?

12. Which, if any, of the debts due to the company at 31st December 1962 (including unquoted investments of the company at that date) are not collectible before 31st December 1963 ?

Premiums for 1962

13. What was the amount of the gross premium income of the company (*before* deducting reinsurance premium expense) in relation to *each* class of insurance and reinsurance business carried on by the company in *each* territory from contracts entered into in *each* month of the year ended 31st December 1962 and what part of each amount consisted of premiums from *each* other insurer, if any, for whom risks have been carried by the company as reinsurer ?

14. What was the amount of the reinsurance premium expense of the company in relation to *each* class of insurance and reinsurance business carried on by the company in *each* territory in respect of risks carried by the company under contracts entered into in *each* month of the year ended 31st December 1962 ?

Unexpired Insurance Contracts at 31st December 1962

15. What was the amount as at 31st December 1962 of the company's gross premium income (*before* deducting reinsurance premium expense) attributable to the unexpired periods covered at that date by *each* class of insurance and reinsurance contracts under which the company carried risks in *each* territory and what part of *each* amount represents :

- (1) the proportion of annual premium income prescribed under insurance laws and regulations in the territory for the purpose of calculating unexpired premiums ?
- (2) the proportion of annual premium income generally or usually adopted by insurers in the territory for the purpose of calculating unexpired premiums ?
- (3) the directors' current estimate of unexpired premiums :
 - (a) based on the company's gross premium income as a whole for the year ended 31st December 1962 ?
 - (b) based on the company's gross premium income for the year ended 31st December 1962 on individual contracts (whether taken singly or in particular groups) ?
- (4) an amount arrived at otherwise ?

16. What was the amount as at 31st December 1962 of the company's reinsurance premium expense in relation to *each* of the amounts referred to in question 15 ?

17. Are there good reasons for expecting that the company's liabilities (*after* deducting reinsurance recoveries) in respect of claims arising after 31st December 1962 on the contracts represented by *each* of the amounts referred to in question 15 will not exceed that amount (*after* deducting the relevant amount referred to in question 16) ? If so, what are those reasons ?

Liabilities at 31st December 1962

18. In what territories did the company have liabilities (other than those referred to in question 15) at 31st December 1962 and, in relation to *each* territory, what was the amount as at that date of the company's liabilities which then consisted of :

- (1) claims admitted by and claims intimated to the company but not paid (before deducting amounts recoverable from reinsurers in respect of those claims) in relation to *each* class of insurance contracts and of contracts of reinsurance by the company for other insurers ?
- * (2) indebtedness to banks (distinguishing between loans, advances and overdrafts) ?
- * (3) loans, advances and deposits made by :
 - (a) directors of the company ?
 - (b) officers (other than directors) of the company ?
 - (c) agents of the company ?
 - (d) other persons (distinguishing between persons referred to in question 3 and others) ?
- (4) liabilities to government authorities in respect of :
 - (a) unpaid taxation based on profits earned up to 31st December 1962 in each territory in which the company has carried on business ?
 - (b) future taxation on those profits ?
 - (c) other unpaid taxation ?
- (5) other amounts payable to :
 - (a) directors and officers of the company ?
 - (b) brokers ?
 - (c) other agents of the company ?
 - (d) reinsurers in respect of reinsurance premiums from the company ?
 - (e) other persons (distinguishing between persons referred to in question 3 and others) ?
- (6) amounts accruing in respect of the company's expenses ?
- (7) provisions for losses ?
- (8) unearned income (other than premium income relating to the liabilities referred to in question 15) ?
- (9) other liabilities ?

Note : It may be convenient to combine answers to this question with corresponding answers to question 19 which follows.

19. What part of the amount referred to in *each* of the questions 18(1) to (9) inclusive represents :

- (1) balances on personal accounts as recorded in the company's books ?
- (2) balances on personal accounts as otherwise ascertained ?
- (3) the directors' current estimate of liabilities the amount of which is indeterminable at the date of the estimate ?
- (4) an amount arrived at otherwise ?

20. What part of the amount of the liabilities referred to in question 18 consisted of indebtedness to *each* subsidiary in the form of :

- (1) debentures issued to the subsidiary ?
- (2) loans, advances and deposits made by the subsidiary ?
- (3) other amounts payable to the subsidiary ?

21. Which, if any, of the company's liabilities at 31st December 1962 are not payable before 31st December 1963 ?

* 22. What liabilities of the company at 31st December 1962 were secured at that date on assets of the company and what assets were then charged as security for *each* of those liabilities ?

Commitments and Contingencies at 31st December 1962

* 23. What assets of the company were charged at 31st December 1962 as security for indebtedness of :

- (a) directors of the company ?
- (b) officers (other than directors) of the company ?
- (c) agents of the company ?
- (d) other persons (distinguishing between persons referred to in question 3 and others) ?

24. What were the company's commitments at 31st December 1962 for subsequent expenditure on :

- (a) investments ?
- (b) loans and advances ?
- (c) other assets ?

25. What were the company's contingent liabilities (other than those relating to unexpired insurance contracts) at 31st December 1962 ?

26. In what legal disputes (including court actions and threatened actions but *excluding* disputes relating to claims under insurance contracts) was the company involved at 31st December 1962 (whether on its own initiative or the initiative of other persons) ?

Capital and Reserves at 31st December 1962

* 27. What was the amount as at 31st December 1962 of the company's issued capital which then consisted of :

- (1) ordinary and common shares and stock ?
- (2) redeemable preference shares ?
- (3) other preference and preferred shares and stock ?
- (4) other shares and stock ?

* 28. What part of the amount referred to in *each* of the questions 27(1) to (4) inclusive was held by *each* member of the company at 31st December 1962 and what part of *each* amount had been paid up at that date ?

29. What was the amount as at 31st December 1962 of the company's reserves which then consisted of:

- (1) share premium accounts ?
- (2) unrealised capital reserves and surplus (including unrealised surplus on revaluations of assets) ?
- (3) realised capital reserves and surplus ?
- (4) revenue reserves and retained earnings on revenue account ?
- (5) other reserves ?

APPENDIX B

TEXT OF REPORT DATED 28th MARCH 1963 BY PARIS OFFICE OF COOPERS & LYBRAND, CHARTERED ACCOUNTANTS

Mr. Stuart W. Reichstein
American Military International
Insurance Association
Friedrich-Ebert Anlage, 37
Frankfurt-s/-Main

Dear Sir,

Since receiving your instructions dated 18th December 1962 to audit the financial statements of your French branches located in Paris, we have attended at your offices with this object in view.

We found the state of the bookkeeping to be very much in arrears, and after spending a large amount of time in trying to assemble data and audit the records, we have come to the conclusion that it will not be possible for us to ever certify the accounts for the year 1962 without re-writing the whole of the accounts.

Provisional accounts are enclosed herewith, for which we take no responsibility, and for the following reasons :

- (1) The Manager, Mr. Muller, was requested by us in the first days of February to obtain confirmation of nine classes of balance of accounts (banks, brokers, debtors, suppliers, agents, inter-company balances, etc.). We have no evidence that the requests have ever been sent and we certainly have received no replies.
- (2) No detail records exist for fixed assets.

- (3) The agents' accounts form the basis of the majority of the branches transactions, and without the agreement of these accounts proper financial statements cannot be prepared. One of the difficulties in confirming the agents' balances lies in the fact that although agents regularly transmit weekly returns of their transactions, no opening or closing balances are included therein. In the books of the branch the transactions have been correlated on I.B.M. machines. The year ended balances were produced in the early days of March 1963, but on checking with the original data, numerous errors of transcription have been found. Running balances were in existence up to April 1962, but since then until now, no balances have been listed.
- (4) Provision for unexpired risks and provision for outstanding risks : An error has been made in the provision for unexpired risks. According to regulations this should be calculated on policies issued and not premiums earned. We estimate approximately another \$30,000 should be added to this. As regards outstanding risks a new regulation dated October 1962 has completely changed the basis of calculation. We estimate another \$110,000 should be added to this figure. The branch has up to 15th May 1963 to re-assess the amount by which the investments covering these reserves should be increased.
- (5) In our opinion, many of the problems that exist cannot be rectified for 1962, owing to the breakdown of the accounting, and unless a complete review of the whole situation is made at an early date, the accounts for the year 1963 will be in a similar state.

Yours very truly

COOPERS & LYBRAND

FINAL REPORT

1. On 1st July 1963 I made an interim report on my enquiries into the affairs of American Military International Insurance Association ("American Military") and First General Assurance & Guarantee Company Limited ("First General"). In that report I described the action which I had taken to try and get the essential information which I required, drew attention to the continued failure of Mr. Reichstein to provide this information, expressed grave doubts about the solvency of the companies and stated it as my opinion that "Mr. Reichstein has no real intention of proper compliance with his statutory obligations or of allowing the true position of American Military and First General to be ascertained and made known either to the Board of Trade or to myself."

2. After that events moved swiftly. On 9th July the Board of Trade was given permission to petition for the winding-up of American Military and First General, and petitions supported by my interim report and various other exhibits were put before the Court. Against First General this action did not have to be pursued because on 15th July an order for the winding-up of that company was made on the petition of a private creditor with an unpaid debt of £166. The company did not contest the action and did not even put in an appearance. The winding-up petition against American Military was taken on 22nd July, but the company contested it and was granted a week's adjournment to file more evidence. On 29th July at the resumed hearing a winding-up order was made. There was no appeal against either of the winding-up orders and in due course meetings of creditors appointed Mr. K. R. Cork of Cork Gully & Co., liquidator of both companies.

3. The affairs of these two companies had always been intimately connected not only with each other but with a third company, American International Insurance Association. This third company, with its confusingly similar name, did not itself write insurance but appears to have acted as agent or broker for the other two. On 18th November 1963, on a private petition by a creditor for some £300, a winding-up order was made against this third company. The company did not put in an appearance in Court. At a meeting of creditors on 24th December 1963 Mr. K. R. Cork was appointed liquidator of this company also.

4. These events brought to an end the known activities of Mr. Reichstein and his companies in the United Kingdom.

5. The activities in France, where American Military was licensed to write insurance, were likewise brought to an end during July 1963 by the French supervisory authorities. The latter had been conducting their own investigation and in consequence of it they revoked American Military's licence in France and put the French branch into liquidation.

6. In the United States of America the Insurance Commissioner of the State of Delaware, where American Military was incorporated, had similarly been conducting an investigation. As the result of this and after a public hearing he decided in November 1963 not to renew American Military's certificate of authority from that state to write insurance. On 9th December 1963 a receiver was appointed for the company in the United States. Finding however that there were no assets or liabilities there for him to administer he was discharged on 27th January 1964.

7. In Germany, following these events, the company was ordered to cease business and upon a statement by Dr. Ernst, the German manager, that the company was unable to meet the full requirements of the Federal German Insurance Law, liquidation proceedings were instituted. An order declaring the company in Germany bankrupt and putting its affairs into the hands of a Trustee in Bankruptcy was made on 23rd January 1964.

8. First General does not appear to have conducted any business on the Continent of Europe but was represented to me as having an important source of income from credit-life insurance in the United States of America. Whether that source of income ever existed and, if so, whether such business is still being transacted are matters on which I have no information.

9. The developments which I have described confirm all too fully the doubts which led me to make my interim report at the beginning of last July—doubts however which I was unable myself to confirm because the head offices of the companies and the main sources of the relevant information, both persons and record, were outside the United Kingdom and thus outside the effective scope of my statutory powers. Even now it is apparent that no close assessment of the position of the companies can emerge until the liquidators in Britain, France and Germany have been able to ascertain the full extent of the companies' liabilities and to locate and evaluate such assets as may be available to them. In order to do this co-operation between liquidators is desirable even though they are acting within their own national jurisdictions. Ideally the affairs of First General, American Military and American International in all countries should be treated as a whole with the liquidators co-operating to that end. Whatever the difficulties of such a task it is clear that an inspector acting under the British Insurance Companies Act can make no further useful contribution. I therefore propose to take no further action in these matters and herewith submit this my final report.

London
2nd April 1964

(Signed) W. E. PARKER
Inspector

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